

CITY OF MARQUETTE, MICHIGAN
FEDERAL FINANCIAL ASSISTANCE
For the Year Ended June 30, 2004

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ANDERSON, TACKMAN & COMPANY, P.L.C.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor, Members of the
City Commission and City Manager
City of Marquette, Michigan

We have audited the financial statements of the governmental activities, business-type activities, discretely presented component units, major funds, and remaining fund information, which collectively comprise the basic financial statements of the City of Marquette, Michigan as of and for the year ended June 30, 2004, and have issued our report thereon November 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We did not audit the financial statements of the Board of Light and Power, a component unit of the City. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Board of Light and Power was based solely on the report of other auditors.

Compliance

As part of obtaining reasonable assurance about whether the City of Marquette's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in Note S of the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Marquette's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the

Honorable Mayor, Members of the
City Commission and City Manager
City of Marquette, Michigan

internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

November 12, 2004



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor, Members of the
City Commission and City Manager
City of Marquette, Michigan

Compliance

We have audited the compliance of the City of Marquette, Michigan with types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Marquette's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Marquette's management. Our responsibility is to express an opinion on City of Marquette's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Marquette's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Marquette's compliance with those requirements.

In our opinion, the City of Marquette complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of Marquette is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Marquette's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for

Honorable Mayor, Members of the
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City of Marquette, Michigan

the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City of Marquette, Michigan, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 12, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the City of Marquette. Such information has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, others within the organization, the Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

November 12, 2004

CITY OF MARQUETTE, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2004

Federal Grantor/Pass Through Grantor Program Title	Federal CFDA Number	Project Number	Project Period	Award Amount	Federal Expenditures
U.S. DEPARTMENT OF COMMERCE					
<i>Direct Award:</i>					
Public Works & Economic Development	11.300	EDA 06-01-02960	02/11/99-01/31/04	\$ 750,000	<u>\$ (543)</u>
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
<i>Passed Through Michigan Economic Development Corporation:</i>					
CDBG - Downtown Revitalization Project	*	14.228	MSC-202039-EDIG	08/01/02-07/31/04	680,350
CDBG - Dead River Flood	*	14.228	MSC-202081-ECA	12/01/03-11/30/04	474,149
<i>Passed Through Michigan State Housing Development Authority:</i>					
CDBG - Downtown Rental Rehab Grant	*	14.228	MSC-2002-931-MDC	06/01/02-05/31/04	250,000
					<u>217,445</u>
U.S. DEPARTMENT OF JUSTICE					
<i>Passed through Michigan Department of Community Health - Office of Drug Control Policy and the Michigan State Police:</i>					
Byrne Memorial Formula Grant Funding	16.579	OCJ-70768-6K02	10/01/02-09/30/03	33,452	10,628
Byrne Memorial Formula Grant Funding	16.579	OCJ-70768-703B	10/01/03-09/30/04	35,475	21,770
					<u>32,398</u>
U.S. DEPARTMENT OF TRANSPORTATION:					
<i>Passed through Michigan Department of Transportation:</i>					
Federal Highway Administration-State Infrastructure Bank Loan	*	20.205	N/A	07/25/03-06/01/04	1,243,100
					1,243,100
INSTITUTE OF MUSEUM & LIBRARY SERVICES:					
<i>Passed through Library of Michigan:</i>					
Library Services Technical Assistance Grant	45.310	134-03	10/01/03-09/30/04	1,500	1,000
U.S. DEPARTMENT OF AGRICULTURE:					
<i>Passed through County of Marquette:</i>					
NRCS Emergency Watershed and Flood Prevention Grant	10.904	DSR-01	07/01/03-06/30/04	136,810	136,810
U.S. DEPARTMENT OF HOMELAND SECURITY:					
<i>Direct Award:</i>					
Fire Safety Grant	97.044	EMW-2002-FG-15196	10/01/02-09/30/03	29,421	<u>3,681</u>
					<u>\$ 2,628,044</u>
* Denotes a major program					

* Denotes a major program

CITY OF MARQUETTE, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

NOTE A - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity the City of Marquette, Michigan and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - OVERSIGHT AGENCY:

The U.S. Department of Housing & Urban Development is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the City of Marquette's federal financial assistance.

CITY OF MARQUETTE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

Financial Statements

- The auditors' report expresses an unqualified opinion on the financial statements of the City of Marquette, Michigan.
- Internal control over financial reporting:
No material weaknesses were identified.
There were no reportable conditions reported.
- There were noncompliance items material to the financial statements identified.

Federal Awards

- Internal control over major programs:
No material weaknesses were identified.
No reportable conditions not considered to be material weaknesses were identified.
- The auditors' report expresses an unqualified opinion on the compliance for major programs.
- There were no audit findings that are required to be reported in accordance with Circular A-133, Section .510(a).

Major Programs

- The programs tested as major programs were the C.D.B.G. Grants C.F.D.A. #14.228 and the State Infrastructure Bank Loan C.F.D.A. #20.205.
- The threshold for distinguishing Types A and B programs was \$300,000.
- City of Marquette was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

The following noncompliance item was noted:

- 04-1 **Condition:** The City of Marquette was found to be in violation of the legal and contractual provisions of Public Act 621 whereby excesses of expenditures over appropriations existed in certain individual funds as enumerated in Note S of the financial statements.
- Criteria:** Internal controls should be in place to ensure expenditures do not exceed appropriations.

CITY OF MARQUETTE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2004

Effect: When expenditures exceed appropriations, the City of Marquette is in violation of Public Act 621 and there is a potential negative impact on the financial position.

Recommendation: The City of Marquette should monitor expenditures throughout the fiscal year to ensure expenditures do not exceed appropriations.

Management Response: Management concurs.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM

None were noted.

CITY OF MARQUETTE, MICHIGAN
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

There were no prior year findings or questioned costs relating to the
City of Marquette, Michigan's major programs.



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November 12, 2004

To the Honorable Mayor, Members of the
City Commission, and the City Manager
City of Marquette, Michigan 49855

In planning and performing our audit of the financial statements of the City of Marquette for the year ended June 30, 2004, we considered its internal accounting control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. The following comments are not reportable conditions as defined by the AICPA but are management points for which we feel consideration should also be given.

Instance of Noncompliance

Uniform Budgeting and Accounting Act (P.A. 621)

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures shall be filed with the State Treasurer and reported to the Attorney General.

In the following instances, the City was found to be in violation of the legal and contractual provisions of Public Act 621. Excesses of expenditures over appropriations in certain individual funds were enumerated upon in Footnote S of the financial statements.

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The above suggestions for improvements in the internal control structure are noted for your consideration. The following comments management points for which we feel consideration should also be given.

GASB No. 34 Implementation of Infrastructure Reporting

The Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" allows the deferral of retroactive reporting of the infrastructure reporting provisions of the Statement until the fiscal year ended June 30, 2006. The City has reported current year additions to infrastructure in the financial statements but has elected to defer the retroactive reporting of infrastructure until the necessary data can be assembled. We recommend the City's Finance and Engineering staff work to develop an inventory of City streets, sidewalks and bridges placed in service since 1980 including estimates of historical cost and accumulated depreciation by individual asset.

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This report is intended solely for the information and use of the City's management, and others within the City Administration.

We appreciate and would like to thank the City's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLC

Certified Public Accountants